

Money, Prices & Fiscal Policy Section
Ministry of Planning, Development & Special Initiatives

**Review of
Monetary Developments**

July FY2020-21

Broad money (M2) contracted by Rs. 208.5 billion (-1.0% growth) during 1st July 2020 to 31st July 2020 as compared to its contraction of Rs. 226.0 billion (-1.3%) during the corresponding period of last year.

Net Foreign Assets (NFA) of the banking system expanded by Rs. 292.7 billion during the period under review as compared to their expansion of Rs. 161.6 billion during the corresponding period of last year. During this period, Net Domestic Assets (NDA) of the banking system contracted by Rs. 501.2 billion as compared to their contraction of Rs. 387.6 billion during the corresponding period of last year. Currency in circulation expanded by Rs. 290.1 billion as compared to its expansion Rs. 270.8 billion during the corresponding period of last year.

Provisional data on monetary aggregates is given in the table below:

Overview

(During 01-07-2020 to 31-07-2020)

- Broad money contracted by 1.0% as compared to its contraction of 1.3% during the corresponding period of last year.
- NFA expanded 56.8% as compared to its expansion of 10.7% during the corresponding period of last year.
- NDA contracted by 2.34% as compared to its contraction of 2.01% during the corresponding period of last year.
- Credit to private sector decreased by Rs. 110.3 billion as compared to its contraction of Rs.122.4 billion last year.
- For budgetary financing, government net retirement to SBP was Rs. 457.2 billion as compared to its retirement of Rs. 1,387.3 billion last year. Borrowing from scheduled banks amounted to Rs. 205.1 billion as compared to Rs.1,449.8 billion last year.

Monetary Aggregates (Rs. Billion)			
Factors Affecting Broad Money (M2) Growth	Stocks at End Jun-2020 ^p	Monetary Impact since 1 st July to	
		31-July-20	2-Aug-19
A. Net Foreign Assets (NFA) of the Banking System	-514.920	292.7	161.6
<i>Growth</i>		56.84%	10.72%
B. Net Domestic Assets of the Banking System (1+2+3)	21,420.163	-501.2	-387.6
<i>Growth</i>		-2.34%	-2.01%
1. Net Government Sector Borrowing (a+b+c)	14,562.9	-259.3	55.6
a. Borrowings for Budgetary Support	13,764.0	-252.1	62.4
i. From SBP	6,557.0	-457.2	-1,387.3
ii. From Scheduled Banks	7,207.0	205.1	1,449.8
b. Commodity Operations	813.4	-7.1	-6.1
c. Others	-14.5	-0.15	-0.78
2. Credit to Non-Government Sector (a+b+c+d)	8,358.0	-107.4	-134.5
a. Credit to Private Sector	6,862.8	-110.3	-122.4
b. Credit to Public Sector Enterprises (PSEs)	1,490.5	2.5	-12.3
c. PSE Special Account-Debt Repayment with SBP	-24.2	0	0
d. Credit to Non-Banking Financial Institutions (NBFIs)	38.9	0.32	0.14
3. Other Items (Net)	-1,510.7	-134.4	-308.7
Broad Money (M2) (A+B)	20,905.2	-208.5	-226.0
<i>Growth</i>		-1.00%	-1.27%
Source: State Bank of Pakistan			

Analysis of Factors Affecting Broad Money (M2)

Volume of money supply or liquidity in the banking system is generated by changes in NFA and NDA. The expansion in NFA of the banking system indicates improvement in external sector as current account deficit stood at US\$ 2.96 billion during Jul-June FY20 as compared to US\$ 13.4 billion during last year. Trade deficit decreased from US\$ -1,827 million in July 2019 to US -1,686 million in July 2020.

NDA of the banking system consists broadly of (i) government sector borrowings, (ii) credit to non-government sector, and (iii) other items. Under these heads, contraction was registered for government sector borrowings, credit to non-government sector and in other items. For budgetary support, net government sector borrowings from the banking system stood at Rs. -252.06 billion during July, 2020. Government retired Rs. 457.2 billion to SBP and borrowed Rs. 205.15 billion from scheduled banks. Last year, during this period government net borrowing was Rs. 62.4 billion. Government retired Rs1,387.3 billion to SBP and borrowed21 Rs. 1,449.8 billion from commercial banks. Under commodity operations, government retired Rs. 7.12 billion to the banking system as compared to retirement of Rs. 6.06 billion during the corresponding period of last year.

Credit to Private sector contracted by Rs.110.3 billion during July 2020 compared with last year contraction of Rs 122.35 billion. Stock of Loans to Private Sector Business during year 2019 and 2020 and their variation are shown in the following table; Loans to Manufacturing, Mining and Quarrying, Information and communication etc. increased while loans to Wholesale and retail trade, Construction and Agriculture, forestry and fishing have declined.

(Billion Rs.)

	Stock June, 2019	Stock June, 2020	Variation
Loans to Private Sector Business	5,869,430	5,967,387	97,957
Agriculture, forestry and fishing	301,491	280,216	-21,275
Mining and quarrying	67,988	82,989	15,001
Manufacturing	3,128,917	3,291,451	162,535
Electricity, gas, steam and air conditioning supply	484,030	491,843	7,814
Construction	153,706	126,166	-27,540
Wholesale and retail trade; repair of motor vehicles and motorcycles	477,312	240,949	-236,363
Transportation and storage	106,582	119,515	12,933

Information and communication	140,628	159,188	18,560
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Credit to public sector Enterprises (PSEs) were expended by Rs. 2.5 billion during July, 2020 as compared to their retirement of Rs. 12.3 billion during the same period of last year.

During this period, Credit provision to Non-Banking Financial Institutions (NBFIs) increased by Rs. 0.326 billion as compared to last year's credit of Rs. 0.139 billion.

Conclusion

At the beginning of a new financial year, debt retirements usually take place under NDA. During July 2020, the contraction of NDA on account of debt retirements dominated the expansion of NFA and resulted in negative growth of broad money. So this contraction is a short-term phenomenon. A sharp expansion of M2 will take place in the coming months as the reduction in policy rate in last quarter of FY20 is expected to be work in desired direction. Inflation as measured by CPI (national) during July registered at 9.2 percent (YoY) as compared to 8.5 percent in June 2020. The expected monetary expansion along with cost-push factors will push the inflation further upwards.